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ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN AUGUST

One record after another was broken in August as the business boom attained new heights. Such key indicators as employment, construction, consumer credit, and electric power output were at all-time highs. The Federal Reserve Board estimates that its index of industrial production rose 3.5 percent from July to 204 on a seasonally-adjusted basis, the highest peacetime level in history. The month also witnessed the production of the 5,000,000th motor vehicle for 1950, and there is little doubt that the 1949 production record of 6.2 million vehicles will be surpassed this year. Reflecting the upsurge in industrial activity is the continued increase in electric power output. In the last part of the month, utilities were producing a record of nearly 6.4 billion kilowatt-hours weekly, 15 percent above the corresponding period of 1949.

Judging by the sharp rise in new orders, manufacturers will have plenty of business in the months ahead. The new orders of durable goods manufacturers in July exceeded sales by $2.2 billion, excluding orders placed with major aircraft producers, while new orders of nondurables exceeded sales by $800 million. As a result, the backlog of manufacturers' unfilled orders rose to about $4.5 billion, a very comfortable working margin.

Employment at Peak

More people were at work in August than ever before in American history. Total employment reached 62.4 million, 1.2 million above the July level. Mainly responsible for the increase were the entry of 440,000 additional workers into the labor force and a decline of 710,000 in unemployment. At 2.5 million, unemployment is at the lowest level since December, 1948.

A 1.6 million rise in the number of nonfarm jobs accounted for all of the gain in employment. The increase was more than seasonal and brought nonfarm employment up to 54.2 million. Farm employment is reported to have dropped slightly to 8.2 million.

Prices Rise

Prices continued to rise during August. At the end of the month the Bureau of Labor Statistics wholesale price index stood at 167.5, or 1.3 percent above the last week of July. Every major commodity group shared in the rise, with the sharpest gains recorded in textiles, building materials, and chemicals. The index of 28 basic commodity prices also advanced and ended the month 5 percent above the end of July. A number of commodities reached new highs for the year, among them coffee, cottonseed oils, steel scrap, lead scrap, and cocoa.

Construction at Record High

An all-time peak of $2.7 billion of new construction was put in place during August. This exceeded the previous month's high by 3 percent and was 24 percent above the level of August, 1949. Moderate increases were recorded for all major categories of construction. Private residential building, valued at $1.2 billion, accounted for more than three-fifths of total private outlays in the month. Housing starts in August may have even exceeded the record 144,000 units started in July.

New construction outlays in the first eight months of this year were 20 percent above those in the corresponding period of 1949. Home building is the prime factor in this boom, with private residential construction up by 54 percent over the same period. Private nonresidential building is running 22 percent over last year and public construction is up 5 percent.

Consumer Credit Up

Consumers owed more money at the end of August than ever before. The rush to purchase goods during July caused consumer credit to jump by $660 million, the biggest monthly increase ever recorded. As a result, total consumer credit at the end of the month reached an all-time peak of $20.3 billion. Most of the rise, $500 million, was in installment credit, as the buying rush concentrated on heavy durables such as autos, refrigerators, and washing machines.

In the last year, consumer credit has increased by $4.2 billion, or over 25 percent. The main increase has been in automobile credit, more than 60 percent.

The two feature articles in this issue are an outgrowth of Professor H. C. M. Case's proposals for revision of national farm legislation published in the July issue of the *Review*.

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ILLINOIS BUSINESS REVIEW

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Controls and Inflation

The fighting in Korea has placed a serious strain on our economy. Coming in the midst of a peacetime boom, it is feared that the diversion of material for military needs will decrease the amount of goods available to consumers. At the same time incomes will no doubt increase, so that more consumer dollars will be bidding for fewer consumer goods. The result might be a rise in prices and a possible inflationary spiral, not to speak of a lower standard of living. How to avoid such a state of affairs is a crucial question to business, consumers, and the government alike, as is evidenced by the Defense Production Act of 1950.

Our Productive Facilities

Before discussing possible remedies, let us first consider the likelihood of such a situation. In other words, is it possible for us to produce enough goods to meet both civilian and military requirements? In the only reasonably similar period in our history, 1940-41, we were able to do so with considerable success. However, as numerous people have already pointed out, the basic difference between our position today and that in 1940 is that we are now undertaking rearmament with the economy already near peak production, whereas plenty of excess capacity existed in 1940. Hence, it is asserted, any increase in military production now would have to be largely at the expense of civilian production. And since incomes would no doubt rise still further as a result of this increased spending and of increased wages, a shortage of goods relative to spending power is highly probable, with tremendous upward pressure on prices.

Any evaluation of the validity of this reasoning has to be based upon some assumption as to the future course of events abroad. If, however, it can be assumed that the fighting will remain localized in Korea and that Russia and China will provide little aid to the North Koreans, there is good reason to believe that no real shortages will develop and that prices can be held in check. The assertion that the economy was operating at a near-capacity rate at the outbreak of hostilities is true only with reference to peacetime operations. In relation to its wartime potentialities the economy is actually far below capacity. As was noted in this column last month, most firms were then working on a five-day-week, one-shift basis. Labor shortages in most occupations can be remedied by increasing the work week of the present labor force and/or by calling back housewives and students. Productivity has increased. And the capacity of most industries has risen substantially since the last war.

It is interesting to note that the Federal Reserve index of industrial production, which attained a new postwar high of 204 in August, was still nearly 20 percent below the wartime high of 247 in October-November, 1943. The absorption of some $30 billion of new military orders annually without substantial price increases in an economy now turning out about $275 billion of goods and services a year is therefore quite possible.

Are Controls Needed?

Does this therefore mean that price and production controls are unnecessary? The answer is no, for three reasons. First is the fact that prices can rise even when no shortages exist, as is evident from our experience of the past few months. Since the outbreak of hostilities in June, prices have risen sharply (Chart on p. 5), not because of shortages, but because of hysteria. Consumers were worried about possible future shortages, and ran to buy every item that was in short supply during the last war. Business firms rushed not only to replenish low inventories, but also to build up sizable reserves as well. Not a few concerns boosted prices simply to be assured of a comfortable base in case of price control. All these factors are probably only temporary; in fact, consumer spending has already fallen off from the July level. Although the imminence of the holiday shopping season will undoubtedly act to bolster spending, it would not be surprising if the cessation of panic buying and replenishment of inventories were followed by a temporary decline in business activity. But if the turn of events is likely to be such as to lead to a continuance of panic buying, price controls are surely desirable.

Another reason for controls is the possibility of local shortages. Our experience during and immediately after the last war has shown that bottlenecks in particular commodities almost invariably arise when the economy is operating near capacity. This is particularly true when many plants are in the process of reconversion from peace to war production, as will be the case during the next few months. Such shortages occur in the labor supply as well as in materials, for the availability of a plentiful number of lathe operators, for example, over the nation does not necessarily mean a plentiful supply in every labor market area. These shortages are dangerous not only in themselves but because they tend to promote competitive bidding for the material, often to the detriment of the defense effort. Any price rises resulting from them are likely to become widespread. Price ceilings on such commodities are therefore clearly desirable; such ceilings might even be temporary, and could be lifted as soon as the shortage disappears.

A third reason for controls is as a precautionary measure, just to make sure that things don't suddenly get out of hand. The motive for such a step is expressed by the age-old saying that it's better to be safe than sorry, for in the present world situation there is no telling when a sudden turn of events is likely to produce a new wave of panic buying. Since such a step would undoubtedly include wage controls, it would also be effective in forestalling a new round of wage increases and any inflationary spiral resulting therefrom.

If our reasoning proves correct and the economy is

(Continued on page 8)

TELEPHONE AND TELEGRAPH EQUIPMENT

Last year Americans made an average of 180 million telephone calls every 24 hours. There were telephones on half the farms and in about 65 percent of all the homes in the United States in 1949. Since Alexander Graham Bell invented the telephone 74 years ago, the manufacturing and operating telephone industries have grown enormously. The number of telephones in operation more than doubled between 1920 and 1941 and then increased more than 75 percent to a 1949 total of over 41 million phones in service.

The Census of Manufactures does not break down the value of products shipped by the telephone and telegraph equipment industry in 1947 by states, but Illinois was clearly the leader, employing over half of the 76,000 workers in the industry. Product value for the industry as a whole in 1947 was $689 million, nearly six times the figure for 1939. The total number of firms manufacturing telephone and telegraph equipment doubled during the same period.

A good deal of the growth in telephone production has been at the expense of telegraph apparatus, which contributed only 3 percent of the total product value of the industry in 1947. Western Union, the only telegraph company now in operation in the United States, derives a major part of its present revenues from commercial and industrial service rather than from social communications, which formed a large part of its business before long distance telephoning became popular.

The Operating Telephone Companies

Although most people don't realize it, nearly one-fifth of the nation's phones are operated by independent telephone companies outside the Bell Telephone System. With 82 percent of the telephones in operation, Bell is by far the most prominent system in the industry, but the 6,000 independent companies, which tie in with Bell only for long distance calls, serve two-thirds of the communities in America. These independents employ about 90,000 people and are located primarily in the smaller towns, most of them serving fewer than 500 phones each.

The independents got started about 1894 when the basic Bell patents ran out. Many small towns weren't willing to wait until the Bell System came to them and formed telephone companies of their own. One of the largest independents in the country was started as a doctor's private system for his patients.

Soon many cities had two or more competing telephone companies, but this proved to be so inconvenient that the public finally demanded interconnection when long distance telephoning became possible. In order to alleviate this situation, Bell bought out other companies in some areas and sold out to independents in others. The Bell System bought the last big city independent in Philadelphia as recently as 1944.

Illinois Telephone Manufacturers

The Western Electric Company of Chicago became the sole manufacturing unit of the Bell Telephone System in 1881. Several other companies in the Chicago area started production of telephone instruments and switchboards as soon as the Bell patents expired. More and more firms began manufacturing telephone equipment to supply the growing list of independent phone companies, and by the turn of the century Chicago was the center of the telephone production industry.

Today the manufacture of telephone equipment is no more exclusive to the Bell System than is the operation of telephone exchanges. The large Western Electric plant at Hawthorne has been outstanding in the industry for years, but it was only one of more than a dozen manufacturers of telephone and telegraph equipment in Illinois reported in the 1947 Census. Several of the large independent producers of telephone equipment in the State were among the earliest manufacturers in the industry and have been responsible for many of the engineering advances in the field.

The Automatic Electric Company was founded in 1891 by the inventor of the dial telephone system, which was used by many independent companies before it was adopted by Bell. Other long-time leaders of independent production include the Kellogg Switchboard and Supply Company, the Cook Electric Company, and the Reliable Electric Company, in Chicago; and the Leich Electric Company in Genoa.

The Kellogg Switchboard and Supply Company has become one of the world's largest independent manufacturers of telephone equipment. Kellogg, which has world-wide distribution, makes practically all of the parts that make up both outside and inside telephone systems. It made the first cradle type telephone and had the first Bakelite molding department in the industry.

The oldest and largest of the Western Electric Company plants is the Hawthorne Works, which employs 19,000 people in the Chicago area. It was for years the source of all Bell telephones and had the major responsibility of meeting the pent-up demand for Bell System phones after the war.

Switchboard equipment and plant construction, including cable, were found to be the main bottlenecks in Bell's rapid postwar expansion. Therefore, the Hawthorne plant was soon turned over to the manufacture of central office wire and switchboards, which still remain its major products.

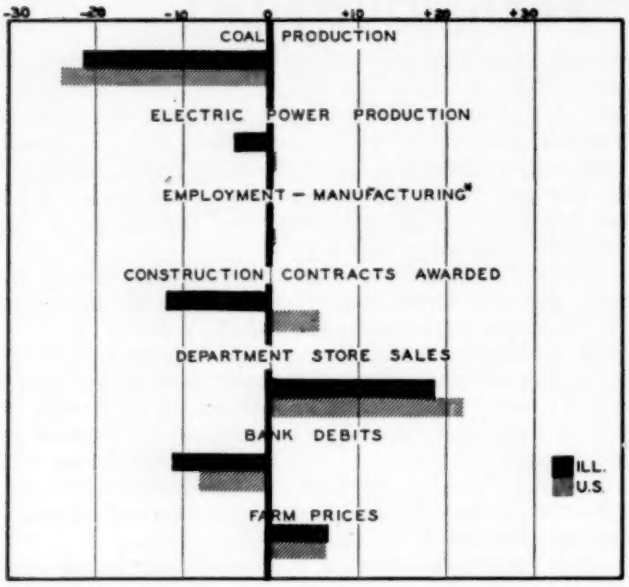
The Teletype Corporation of Chicago is a subsidiary of Western Electric, turning out instruments for the automatic transmission of typewritten messages, the backbone of army communications in World War II.

Besides furnishing equipment for telephone companies, Illinois telephone and telegraph manufacturers make complete inside and outside telephone systems and parts, as well as such products as telegraph apparatus, alarm systems, and remote control signals which are used by foreign governments, railroads, ocean liners, mines, factories, and offices all over the world.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage Changes June, 1950, to July, 1950



* Figure for Illinois not available.

ILLINOIS BUSINESS INDEXES

Items	July 1950 (1935-39 =100)	Percentage Change from June 1950	Percentage Change from July 1949
Electric power[1]	257.2	− 3.6	+ 6.8
Coal production[2]	93.2	−21.3	+16.8
Employment—manufacturing[3]	n.a.	.....	.....
Payrolls—manufacturing[3]	n.a.	.....	.....
Dept. store sales in Chicago[4]	248.1[a]	+13.6	+22.2
Consumer prices in Chicago[5]	179.2	+ 1.6	+ 3.0
Construction contracts awarded[6]	551.0	−11.9	+39.3
Bank debits[7]	286.2	−11.1	+ 7.6
Farm prices[8]	245.0	+ 6.6	+11.4
Life insurance sales (ordinary)[9]	184.6	− 5.7	+13.1
Petroleum production[10]	240.5	+ 5.4	− 2.1

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Repts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	July 1950	Percentage Change from June 1950	Percentage Change from July 1949
	Annual rate in billion $		
Personal income[1]	219.0[a]	+ 0.9	+ 7.6
Manufacturing[1]			
Sales	259.2[a]	+ 1.4	+26.3
Inventories	32.0[a,b]	0.0	− 1.2
New construction activity[1*]			
Private residential	14.6	+ 7.1	+60.5
Private nonresidential	8.9	+ 4.6	+ 2.9
Total public	8.3	+ 6.0	+ 8.6
Foreign trade[1]			
Merchandise exports	9.3	−11.6	−14.0
Merchandise imports	8.5	+ 3.6	+55.9
Excess of exports	0.8	−66.8	−85.8
Consumer credit outstanding[2]			
Total credit	20.3[b]	+ 3.6	+25.6
Installment credit	12.6[b]	+ 4.5	+35.0
Business loans[3]	14.0[b]	+ 3.1	+ 9.3
Cash farm income[3]	27.6	+26.7	+ 6.1
	Indexes (1935-39 =100)		
Industrial production[2]			
Combined index	197[a]	− 1.0	+22.4
Durable manufactures	235[a]	− 0.8	+27.0
Nondurable manufactures	181[a]	0.0	+17.5
Minerals	146[a]	− 3.3	+18.7
Manufacturing employment[4]			
Production workers	156[a]	+ 0.8	+ 8.1
Factory worker earnings[4]			
Average hours worked	108	0.0	+ 4.1
Average hourly earnings	244	+ 0.5	+ 3.8
Average weekly earnings	263	+ 0.5	+ 8.0
Construction contracts awarded[5]	601	+ 5.6	+50.5
Department store sales[3]	363[a]	+21.8	+29.2
Consumers' price index[4]	173	+ 1.4	+ 2.4
Wholesale prices[4]			
All commodities	202	+ 3.6	+ 6.1
Farm products	232	+ 6.1	+ 5.9
Foods	217	+ 5.7	+ 6.3
Other	187	+ 1.8	+ 4.4
Farm prices[3]			
Received by farmers	246	+ 6.5	+ 6.9
Paid by farmers	205	+ 0.4	+ 2.4
Parity ratio	103[c]	+ 6.2	+ 5.1

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] As of end of month. [c] Based on official indexes, 1910-14 = 100. [*] Data revised; not comparable with figures in previous issues.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1950					1949
		Aug. 26	Aug. 19	Aug. 12	Aug. 5	July 29	Aug. 27
Production:							
Bituminous coal (daily avg.)	thous. of short tons	1,817	1,880	1,813	1,760	1,793	1,314
Electric power by utilities	mil. of kw-hr.	6,346	6,370	6,253	6,247	6,190	5,523
Motor vehicles (Wards)	number in thous.	171.9	183.4	180.3	173.2	185.5	148.5
Petroleum (daily avg.)	thous. bbl.	5,629	5,637	5,603	5,568	5,448	4,717
Steel	1935-39=100	195.7	216.3	215.8	215.0	212.0	175.1
Freight carloadings	thous. of cars	837	851	847	837	845	747
Department store sales	1935-39=100	291	281	273	296	295	252
Commodity prices, wholesale:							
All commodities	1926=100	166.0	164.9	165.6	165.3	163.7	152.7
Other than farm products and foods	1926=100	155.1	154.1	154.5	153.4	151.7	145.0
28 commodities	August, 1939=100	316.1	310.2	307.5	304.3	303.1	247.6
Finance:							
Business loans	mil. of dol.	14,512	14,359	14,187	14,022	13,911	12,942
Failures, commercial	number	176	186	194	168	160	176

Source: *Survey of Current Business, Weekly Supplements.*

RECENT ECONOMIC CHANGES

Production Gains

Industrial production recovered during August, with the Federal Reserve Board's preliminary estimate at 204 percent of the 1935-39 average. The 3.6 percent rise over July's 197 took the index to the highest point in five years and a new peacetime record. Steel output averaged better than 97 percent of capacity over the month, or about 1,880,000 net tons of ingots and castings weekly. Instead of making its customary annual revision of capacity, the steel industry this year has made the change at mid-point, and is now calculating output on the basis of the July 1 capacity of 100,563,500 tons annually. Automotive production remained high despite the interruptions of various walkouts, averaging about 178,000 cars and trucks weekly. Total August output is estimated at 820,000 vehicles.

Record Employment

Only a few months after considerable concern was expressed over declining employment, the number of workers on the job reached a new high of 62,367,000 in August, the first time employment has gone over 62 million. Nonfarm employment, at more than 54 million, also reached a new peak. The substantial increase over July was attributed partly to the Korean crisis and partly to seasonal factors. With unemployment down to 2.5 million workers, some of whom must be regarded as unemployable, shortages of certain types of skilled labor are already being reported. Bureau of Census data, in thousands of workers, are as follows:

	August 1950	*July 1950*	*August 1949*
Civilian labor force	64,867	64,427	63,637
Employment	62,367	61,214	59,947
Agricultural	8,160	8,440	8,507
Nonagricultural	54,207	52,774	51,441
Unemployment	2,500	3,213	3,689

Labor unrest flared during August, with strikes in a number of important industries. A nation-wide rail tie-up by 300,000 trainmen and conductors was averted only by Federal seizure of the railroads. Chrysler granted 120,000 workers a raise of 10 to 15 cents an hour, mainly to cover increases in cost of living since a three-year contract was signed in May. Disputes at Ford, Packard, and Kaiser-Frazer were settled with the signing of contracts along the lines of the GM agreement: straight pay raises, annual productivity increases, provision for cost of living adjustments, and pensions of $125 monthly.

In farm machinery, International Harvester and John Deere workers were also out on strike. Strikes in other industries hit General Electric and a New Jersey plant of the U. S. Rubber Company; and a strike of more than 6,000 UMW District 50 workers in soda ash production was beginning by early September to affect output of numerous products dependent upon the chemical.

Manufacturers' Sales Rise

Sales by manufacturers continued to rise in July and reached a total of $21.6 billion after seasonal adjustment. Durable goods sales were down from $9.6 billion to $9.4 billion, mainly because of vacations. Nondurables, however, were up 3 percent to $12.2 billion, with sizable gains in textile and apparel sales.

New orders increased $700 million during the month to a total of $22.8 billion, exclusive of aircraft orders for which data were not available. Total order backlogs for durables were up by $2.2 billion, with all industries sharing in the increase. Textile orders were an important factor in the $500 million increase in new orders for nondurables, which totaled $12.1 billion for July. Unfilled orders for nondurables rose $800 million.

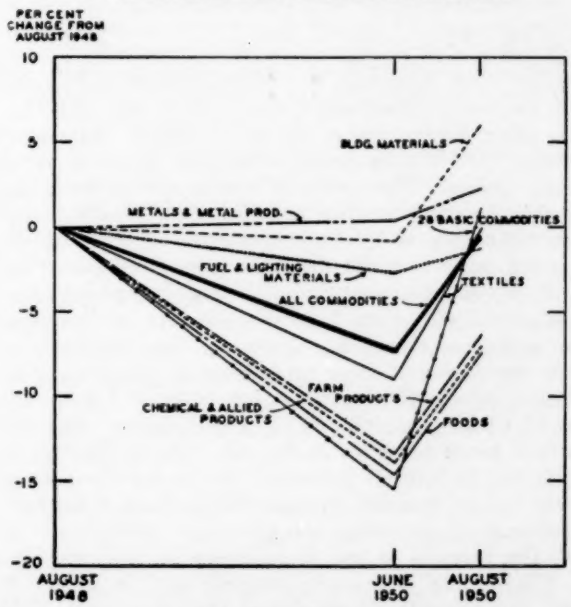
Prices Advance

Some indication of the extent of the recent price rises is shown in the chart below, which compares prices of June and August, 1950, with those of August, 1948, when the price level was at its postwar peak. The sharpest rise between the end of June and the end of August occurred in the prices of basic commodities, such as steel scrap, nonferrous metals, rubber and cotton, but other important groups — farm products, foods, textiles, building materials, and chemicals — also showed large gains ranging from 7 to 10 percent. Many commodity groups have recovered in two months almost all the ground lost from August, 1948, to mid-1950. In most cases, the larger portion of the advances occurred during July.

Farm prices also have shown large increases since June. The index of prices received by farmers increased from 247 to 267 (1910-14 = 100) over the two months, with most of the rise coming in early July. Prices paid rose only 3 points over the same period to 258. Consequently, the parity ratio rose from 97 to 103. Cotton and cottonseed prices were up sharply on the release of the Department of Agriculture's latest estimate of a short 1950 cotton crop combined with the outbreak of hostilities in Korea.

The latest report on consumers' prices, that for July 15, indicated a rise of 1.4 percent in the month preceding that date, mainly because of a sizable advance in food prices. The index for all consumers' goods and services rose from 170.2 to 172.5 (1935-39 = 100); foods were up from 204.6 to 210.0. Other groups remained about level or showed very small increases.

WHOLESALE PRICE INDEXES



Source: Bureau of Labor Statistics.

THE CASE FARM PROGRAM PROPOSALS

CHARLES F. BRANNAN, Secretary
United States Department of Agriculture

This opportunity to comment on the farm program article by Professor Case, which appeared in the July issue of the *Review,* is one that I appreciate.

All of us who realize the vital importance of a sound farm policy should welcome constructive proposals and discuss them freely. Such proposals have been too few.

Professor Case's article serves at least three good purposes. It is a reminder that the national debate on farm policy has not been settled and that we are still in search of ideas on which most of us can agree. It correctly points out some of the problems with which we have been confronted and which we have not been able to meet under present legislation. It emphasizes a number of important objectives of farm policy.

Objectives of Proposals

Although the author does not say so specifically, he is of course offering his proposals as alternatives to other suggestions for improving the present program, including those suggestions which were presented early in 1949 by the Department of Agriculture and widely discussed since that time.

It should be remembered that the Department proposals did not cover the entire field of agricultural policy but rather aimed at improving the price support program. We listed as objectives six ways in which a farm income and price support program can serve the interests of all the people. We said, "It can help do these things: Prevent depression, build bigger industrial markets and employment, maintain high-level production of farm commodities, conserve natural resources, maintain reserves for national security, and strengthen the rural community."

Professor Case states more limited objectives. For example, instead of proposing direct means to prevent depression, he suggests that the program should "provide price-support floors to protect farmers in periods of severe depression." I do not believe that farmers or the rest of the nation should be satisfied with this. One of our major aims should be to prevent a depression — not merely to prevent complete disaster after one arrives.

His other three "major points of attack" state good objectives. One is to encourage farmers to adopt better cropping systems. The payment scheme he proposes for doing this deserves serious consideration. Another suggestion he makes is to "help operators of uneconomic-sized farm units to make the adjustments needed to improve their economic situations." I agree completely with this objective. However, I cannot discover in Professor Case's outline any implementation for this proposal except the regulation of large units through taxation. More about that later. His fourth major point is "encourage improved dietary habits." With this I agree also, but the school lunch program is the only specific method he suggests. As he himself indicates, this is not likely to be sufficient except possibly in times of full employment.

Professor Case offers an extremely limited kit of "tools" for farmers to use in reaching the stated objectives. His outline appears to provide only a somewhat revised Agricultural Conservation Program, plus 50-75 percent of parity price support on "major commodities" through direct payments to farmers, plus a school lunch program and regulatory taxation of big farms.

Experience indicates it is unrealistic to hope that even the limited objectives stated will be reached with no more program assistance than he suggests.

Price Supports

The most disturbing feature of this article is what it omits. The reader, knowing that Professor Case carried a great deal of responsibility for development of the sliding scale of support, would naturally expect to find some reference to it. A great many farmers have vigorously opposed the sliding scale, and although much of the "slide" has been taken out of it, the principle is still in the law. It is still an issue and needs to be met rather than avoided.

Although the professor made one reference to "inflexible" support (the word which some people erroneously use to identify the sliding scale), I frankly do not know whether he proposes to retain or abandon the sliding scale.

He also ignores other questions that are important to farmers.

Which commodities should be eligible for support? Which should have priority in the application of support? He mentioned support for "major farm products." Does he mean to include milk, hogs, cattle, sheep, eggs, and chickens along with the old so-called basic commodities?

If support is to range from 50 to 75 percent of some defined parity, what would determine which farmers would receive assurances at 75 percent of parity and which at only 50 percent? Before farmers "buy" a program, they have a right to know what the general principles would mean in specific terms.

By what methods would support be applied? It is not entirely clear to me whether Professor Case proposes to do away entirely with commodity loans. I believe he does. He proposes that conservation payments based on county-average land-use patterns should be adjusted to make up for low farm income, evidently as a substitute for or a supplement to price support.

He appears to oppose maintenance of a security reserve of storable commodities. I regard this as an extremely serious weakness from the standpoint of both agriculture and the general welfare.

Would support be provided to all producers of supported commodities? Or only to those participating in the conservation program? There is still considerable controversy over the question of making conservation a requirement for the benefits of price support.

If support is to be provided through payments, how large would the payments need to be in order not only to make up for low farm income when necessary, but also to encourage conservation?

If payments were to be used for adjusting farm income, some standard would be needed for defining fair income and giving the Congress a sound basis for deciding how much to appropriate. This would be necessary even if the intent were to assure only 50 percent of fair income. At present, no definition of fair income that is

(Continued on page 8)

THE NATIONAL INTEREST IN A FARM PROGRAM

CHARLES B. SHUMAN, President
Illinois Agricultural Association

Our conception of the proper functions of the Federal government in the affairs of the citizenry has undergone a marked change during our national life. The Revolutionary War was in part a result of the colonists' great desire for a reduction in the powers of a centralized government. Year after year the demands of citizens for more and more governmental services have resulted in a huge Federal government, which today exerts far more control over the individual American than the British ever possessed. We have come to accept the task of creating a favorable economic climate for all segments of our nation as one of the functions of government. It is not my purpose to argue for or against this concept of government; however, it is necessary to recognize this fact as a basis for discussing farm programs.

The Role of Government

Traditionally, farmers have resented the interference of government in their business affairs. However, during the recurrent periods of agricultural economic sickness which resulted from the great cyclic changes in general price levels, farmers observed that other groups were able to turn to government for special assistance which seemed to help these groups weather periods of adversity. They saw the protective tariff change from a device to encourage infant industries to a powerful tool which facilitated production control and price-fixing mechanisms in industry and labor. As America changed from an agricultural to an industrial nation, farmers were concerned with the passage of more and more legislation for the benefit of special economic interests. Fair-trade pricing and minimum-wage laws are only some of the more recent forms of an already far advanced trend. It was only natural that farmers should follow the example set by business and labor and turn to the Federal government for assistance in bringing agricultural price levels into balance with the remainder of the economy.

Many of us in agriculture are convinced that dependence upon government by any group for special economic assistance, except in dire emergency, is unsound. It can only lead to a larger and more powerful bureaucracy and, finally, to complete nationalization of all enterprise. It is because of these convictions that our organization has been exploring ways and means of reversing the trend in agricultural programs. However, unless labor and business are willing to join with us in abandoning some of the special privilege legislation which they enjoy, our efforts will fail. Many industrial and labor groups give lip service to the cause of free enterprise and a competitive economy but are unwilling to relinquish the governmental aids which enable them to restrict production and control prices.

While it is true that agriculture is a minority group in our population, yet the impact of long-continued periods of farm price disparity on our national economic welfare is terrific. Thus, it is in the general national interest that agricultural income be in balance with the national income. The national interest in a parity position for agriculture runs in three general directions. Agriculture as a consumer of the products of labor and industry is of primary importance, and long periods of price maladjustment result in drastic curtailment in consumption by a very important consumer group. Second, a long-time unbalanced agricultural price structure results in serious depletion of our essential soil fertility. During low price periods, farmers are forced to market much of the nation's future natural resources. A third result of agricultural price disparity is the tendency to over-adjust production to apparent changes in demand. It is not easy to adjust the agricultural plant to changes in demand, because of the time required to enter or abandon agricultural production. Consumers pay a penalty for unreasonably cheap food as extremely low prices often generate later periods of scarcity. All these results of agricultural price depression are of serious consequence to the nation and justify the interest of all citizens in farm programs.

Yardsticks for a Farm Program

If we are to examine farm programs in the light of the general public welfare, we should consider some standards or yardsticks. Certainly the following points should be considered in the process of evaluating the various legislative proposals. It should be understood that these standards are not necessarily agreed to by anyone other than the author.

1. Price support programs in agriculture should be designed only to prevent drastic collapse in the price of basic agricultural commodities and not to guarantee a profit. Support levels should be flexible.
2. Farm programs should protect the public interest in the conservation of natural resources.
3. The ideal program should result in encouraging the expansion of international trade and the sale of surpluses of agricultural commodities in available foreign markets.
4. Farm programs should increase rather than curtail the need for the agricultural extension educational program.
5. The program should consider the national interest in maintaining adequate reserves of strategic agricultural commodities to protect against the hazards of crop failure and war.
6. It should avoid the use of direct subsidy payments and should be designed to operate at the very minimum of cost.
7. Compliance with government agricultural programs should be on a voluntary basis.

While the present farm program meets these requirements in many respects, it is also deficient on several counts. Some degree of flexibility is provided; yet the support levels are relatively high and there is certainly not sufficient emphasis placed on proper soil conservation. The present program will also probably continue to be rather costly.

The Brannan and Case Proposals

Another current proposal that has considerable political support is the plan advocated by Secretary of Agriculture Brannan. When measured by the above seven

(Continued on page 8)

The Case Farm Program Proposals

(Continued from page 6)

usable for program purposes is available, and Professor Case suggests none.

Cost of Program

He is perfectly correct in saying that the cost of his program would be limited by Congressional appropriations. But this is generally true of the present program, and it would be specifically true of the program recommended by the Department of Agriculture. Under the Case proposal or any other, there are just two circumstances that can keep appropriations low: (1) high farm income from the markets, or (2) abandonment of a fair-income objective for agriculture.

It seems fair to say that the Case program would not attempt to assure anything more than 75 percent of parity. If so, the dollar cost of the program should be moderate even if market returns declined markedly, but somebody would then have to pay the price of an agricultural depression. In the past, the farmer has paid first, and the whole nation has eventually had to pay a high price.

Assuming that many farmers did not care to participate in the Case acreage reduction rental program, what would be done about excess market supplies? Would payments be increased to induce participation? Would marketing quotas be used?

The way to discourage industrialization of farming or development of big-scale operations, Professor Case suggests, is to use the taxing power for regulatory purposes. My own suggestion was much milder. It was merely to *withhold price support* on that *part* of a farm's production which exceeded the production of the biggest family-size farms (with no limit at all in the case of production under marketing quotas). Of course, neither of those suggested measures would go far toward the objective stated by Professor Case: "Help operators of uneconomic-sized farm units to make the adjustments needed to improve their economic situations." The Department has recommended for this purpose a broad program of specific measures in addition to those in our price support program.

The final major deficiency of Professor Case's outline on which I shall comment is one which is more apparent in the light of the Korean situation than it may have been at the time the article was written. I refer to the lack of any definite means of encouraging quick adjustments in production. The Department's proposals were based on successful wartime experience in making adjustments. The Case outline apparently provides for an even less effective adjustment mechanism than is provided by present legislation.

In stating my opinions forthrightly, I hope I have not made them sound harsh or unfriendly. On the contrary, I think we should be grateful to Professor Case for making definite proposals. I wish he had directly tackled more controversial questions. I do not believe the program he has proposed would go far toward meeting the serious problems of which farmers are distinctly aware or that it would sufficiently protect the interests of consumers.

However, he has had the courage to make a target rather than to follow the lead of so many others and merely indulge in destructive criticism. I hope that his outline will stimulate the thinking of many persons so that decisions will be crystallized and so that our programs soon may be more completely fitted to our needs.

The National Interest in a Farm Program

(Continued from page 7)

standards, the Brannan Plan offers no advantages over the present program and certainly has additional dangers. The proposed level of price supports is very high, and in applying them to practically all perishable crops the potential cost would be tremendous. Administration of the Brannan Plan would be extremely complicated and could result in an even greater agricultural bureaucracy. The idea of cheap food for consumers, with high prices for producers at the same time, is a very attractive political dream but it ignores the fact that the cost of food to the consumer includes many items other than the price paid to the farmer for his product.

The present farm program is the result of many years of experience together with considerable political compromise. It has many good features that should be preserved; therefore, it seems reasonable to consider proposals for revision rather than radical changes. Professor H. C. M. Case, Head, Department of Agricultural Economics, College of Agriculture, University of Illinois, offered some very valuable suggestions in the July issue of the *Illinois Business Review*. Professor Case suggests a simple program of incentives to encourage an increased acreage of hay and pasture coupled with support prices for major crops at 50 percent to 75 percent of parity to prevent periods of price collapse. This type of revision of the existing farm program would be a long step towards building a program in line with the seven standards suggested.

Controls and Inflation

(Continued from page 2)

found to have even more capacity than was originally thought, selective price and production controls properly administered through the new Economic Stabilization Agency would be all that are needed to keep things in order. Supplementary controls, such as credit restrictions and higher interest rates, would also be useful, as would an increase in taxes to prevent purchasing power from rising too rapidly. In fact, the greater is the increase in taxes, the less will be the pressure of purchasing power on prices.

Nevertheless, if prices do keep rising, the imposition of general price and production controls would be best for all concerned. Everyone has to shoulder the burden of a government deficit, generally through paying higher taxes for many years to come. The more prices rise, the more it will cost the government to rearm, and the heavier will be the burden on the taxpayer. This is not to speak of the hardships caused by higher prices on various segments of the population, such as the lower income groups and people with fixed incomes. Although price and production controls have many undesirable features, it is better to have controls without inflation than inflation without controls. RF

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Westinghouse Developments

The Westinghouse Electric Corporation has announced the development of an electronic pressure gauge that accurately measures the most perfect vacuum yet produced by science. It can detect the presence of air in a vacuum where only one air molecule remains out of every 10,000 billion originally present. Developed specifically for the study of atoms, electrons, and radiation in gas-filled tubes such as fluorescent lamps and electronic tubes, the new gauge will also make possible a better understanding of how gases seep through metals.

Another Westinghouse development is a radically new electrical insulation that will make possible the construction of larger power plant generators by reducing electrical insulation losses. It consists of mica flakes imbedded in tough, heat-resistant synthetic resin which has sufficient stretch to expand and contract with the generator coils. Called Thermalastic, it allows for the different rates of expansion of copper, iron, and insulation when heat is applied.

Air in Concrete

The National Bureau of Standards has found a way to substitute air bubbles for sand in concrete used in farm building construction. Air not only replaces the sand, but makes the concrete lighter in weight, more resistant to water infiltration, and a better insulator against heat and cold. The cement, tested in the walls and roofs of farm buildings, is mixed in the normal way except that an industrial aerating agent or detergent is added to make the mix form and become porous.

New Burroughs Machines

The Burroughs Adding Machine Company has announced three new additions to its line. One is an accounting machine which contains a prearranged set of controls for specific jobs, each control unit having four entirely different accounting programs which may be removed and replaced by another unit designed for four more totally different accounting jobs. Another new machine will eliminate the large stock of tickets presently required by railroads, airlines, and buses by automatically printing tickets to any destination from blank stock, showing the date, serial number, fare, and type of ticket. The latest Bell and Howell microfilm recorder, which Burroughs distributes and services, reproduces photographically both sides of a document simultaneously and can turn out check-size documents at a rate of more than 400 per minute.

Speed Reducer

A new double reduction speed reducer for electric motors is now being produced by the Winfield H. Smith Corporation to serve fractional horsepower requirements. Designed for the transmission of small power loads, the reducer is totally enclosed in a single compact housing and offers a range of 1/20 to 1/8 horsepower. This range of speed and power is said to eliminate the necessity of employing bulky, expensive speed reducers with horsepower ratings many times greater than may be required.

Temperature Testing

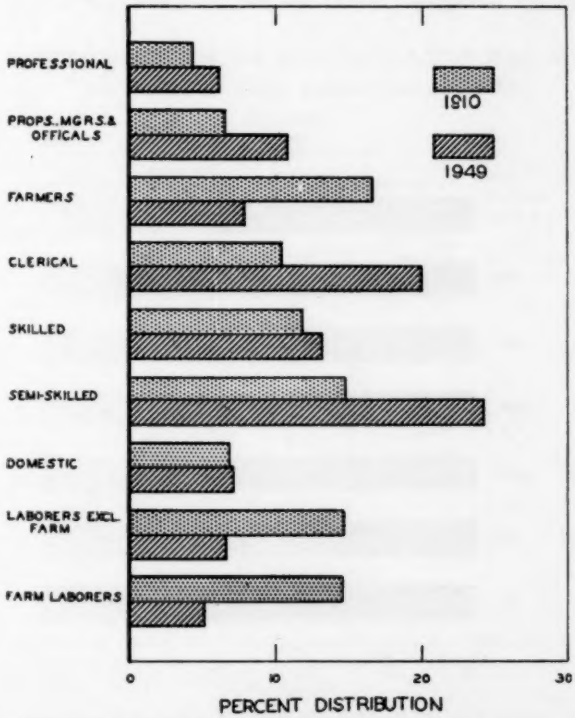
A new approach to laboratory temperature testing has been made by the development of complete sets of matched precision thermometers by the Weston Electrical Instrument Corporation, Newark, New Jersey. Nine matched thermometers with overlapping ranges, available in either Centigrade or Fahrenheit scales, provide relatively low-cost but very accurate temperature measuring instruments for engineers, scientists, and laboratory technicians. The thermometers, which are 15 inches long, are made from extra-heavy glass and are annealed and marked with individual ice points for reference.

Labor Report

The July Anniversary issue of the *Monthly Labor Review* contains a special section entitled "Fifty Years' Progress of American Labor." It not only discusses the old and the new in labor statistics and labor legislation, but brings the reader up to date on many different aspects of the nation's labor force — its organizations, its relations with the government, and its quest for security.

Since 1900 the nation's manufacturers have placed increasing emphasis on improving and expanding mass production, a trend which has changed the occupational composition of the nation's employment opportunities. As shown by the chart, between 1910 and 1949 there was a substantial increase in the proportion of workers in semi-skilled occupations and a sharp decline in the proportion engaged in laboring occupations and farming. The percentage of workers employed in skilled trades rose slightly and there was a considerable increase in the importance of professional and clerical workers.

COMPOSITION OF THE LABOR FORCE



Source: Bureau of Labor Statistics.

LOCAL ILLINOIS DEVELOPMENTS

Illinois business activity in July continued well above last year's level. The impact of the Korean fighting on the State's economy had begun to be felt as prices rose, employment in mid-July did not show its usual seasonal decline, and department store sales increased contraseasonally in many Illinois cities.

Prices

The index of consumers' prices of living essentials in Chicago advanced 1.6 percent from mid-June to mid-July to 179.2 percent of its 1935-39 average, the highest point reached since September, 1948. Food prices, up 3.3 percent, led the advance. Slight gains occurred in all other major groups of commodities and services except fuel, electricity, and refrigeration. Food prices also advanced in Springfield and Peoria. The Springfield index of retail food prices on July 15 stood at 223.5 percent of its 1935-39 average, up 4.3 percent from June 15 and 7.2 percent above last July. The Peoria retail food cost index rose to 226.2 percent of its 1935-39 average, a 2.6 percent gain in the month.

The Illinois index of prices received by farmers rose 7 percent from June to July and on July 15 was 273 percent of the 1910-14 average. By August 15, however, the index had declined to 271 percent, because of lower prices for seeds, fruits, and soybeans. Meanwhile, the U. S. index of prices paid by farmers rose 2 points during the period, causing the Illinois parity ratio to decline from 107 in July to 105 on August 15.

Construction

In contrast to the national situation, which in July showed an all-time monthly record for value of construction contracts awarded, value of contracts awarded in Illinois in July was down approximately 12 percent from the June figure. The July decline, primarily due to a sharp drop in residential building, appeared to be general throughout the State, as 11 of the 18 cities for which building permit data are collected showed decreases in total value of permits issued during the month. Despite the decline, value of contract awards in the State for the first seven months of this year was approximately 46 percent greater than in the same period of 1949.

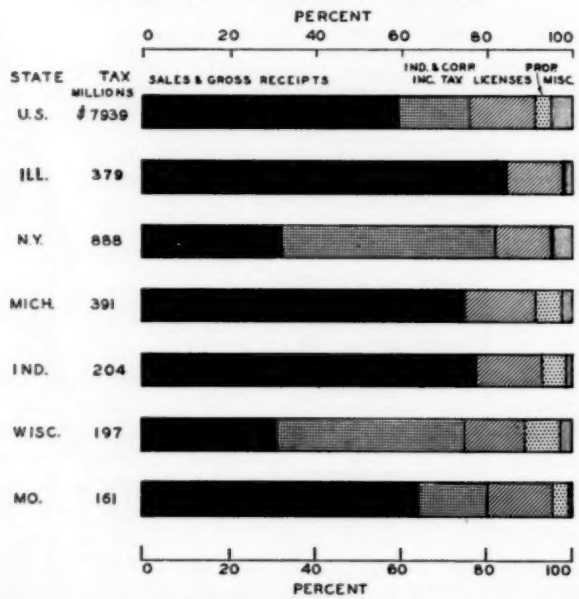
The Federal Housing Administration recently announced approval of loans for local slum clearance programs for 52 Illinois cities. The loans, totaling approximately $22 million, represent 1950 allocations under the National Housing Act. Illinois led all states in number of cities applying and amount of loans authorized.

Contracts totaling $1.5 million were recently awarded by the State Division of Highways for road improvements in 51 Illinois counties.

Investments in industrial facilities reported for the Chicago area during August approximated $62 million. This is the highest monthly total since July, 1942. Included in the August investment programs are plans of Carnegie-Illinois Steel and Inland Steel companies to expand the production capacity of their Chicago plants. Vulcan Mold and Iron Company is constructing a million dollar plant in Lansing, Illinois. The new plant will employ some 150 persons and is designed to produce approximately 50,000 tons of ingot molds and accessories a year. International Harvester Company has started construction of a $5 million plant at Broadview which will be used as a parts depot and machine transfer plant. Catalin Corp. of America announced that it will expand its recently completed Calumet City plant because of the strong demand for its liquid resin products.

As a part of its five-year freight car modernization program, the Illinois Central Railroad recently authorized freight car construction costing $5.9 million. One thousand boxcars will be built in the company's shops at Centralia. The Pennsylvania Railroad has placed an order for 1,000 steel boxcars with the Pressed Steel Car Company of Mt. Vernon, in addition to the order for 2,000 cars placed last May.

STATE TAX COLLECTIONS, BY MAJOR SOURCE
(Fiscal year ending June 30, 1950)



Source: *State Tax Collections in 1950*, Bureau of the Census.

Sales Tax Collections

Illinois tax revenue for the fiscal year ending June 30, exclusive of collections from the Unemployment Compensation Tax, was $379 million, up 0.8 percent from 1949. Collections from the Unemployment Compensation Tax, sometimes included in the total tax revenue figure, are held in trust for benefits to covered workers and thus are not available to meet other State expenditures. The relative importance of the sources of tax revenue for Illinois, as compared with that of neighboring states, New York, and the total for all states, is shown in the accompanying chart.

As is illustrated by the chart, Illinois relies more heavily than other states on its sales and gross receipts taxes, which include collections from motor fuel, alcoholic beverage, tobacco, and other taxes, as well as revenue from the general sales tax. The proportion of the State's revenue derived from sales and gross receipts taxes is relatively greater than the combined proportion from sales, gross receipts, and income taxes in the 5 other states shown. New York and Wisconsin do not have a sales tax. Of the 28 states which have a sales tax, California reported the greatest revenue from this tax, Michigan was second, and Illinois was third. Illinois is one of 15 states which have neither an individual nor a corporation income tax.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

JULY, 1950

		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		$37,687[a]	755,457[a]	$488,698[a]		$8,921[a]	$ 9,012[a]
Percentage Change from	June, 1950	−7.2	−1.7	+4.0	−8.0	−11.4	−15.1
	July, 1949	+174.9	+9.2	n.a.	+23.1	+7.6	+4.7
NORTHERN ILLINOIS							
Chicago		$28,645	594,463	$359,538		$8,058	$7,847
Percentage Change from	June, 1950	−2.3	−1.7	+4.1	−10.1	−11.9	−16.0
	July, 1949	+194.6	+9.6	n.a.	+22.3	+7.0	+3.6
Aurora		$ 748	n.a.	$6,533		$ 38	$ 65
Percentage Change from	June, 1950	−25.5		+2.3	−1.1	−5.9	−14.2
	July, 1949	+165.2		n.a.	+35.1	+15.7	+10.7
Elgin		$ 357	n.a.	$5,128		$ 24	$ 50
Percentage Change from	June, 1950	−61.9		+5.4	−12.8	−13.7	−22.6
	July, 1949	+96.2		n.a.	+23.3	+11.1	+3.2
Joliet		$ 427	n.a.	$8,802		$ 42	$ 61
Percentage Change from	June, 1950	+1.2		+4.7	−1.9	−2.0	+27.2
	July, 1949	−47.5		n.a.	+32.7	+15.6	+40.2
Kankakee		n.a.	n.a.	$4,769		n.a.	$ 25
Percentage Change from	June, 1950			+7.5	+17.9		−0.7
	July, 1949			n.a.	+55.1		+22.8
Rock Island-Moline		$1,488	14,577	$ 9,476		$ 32[b]	$ 98
Percentage Change from	June, 1950	+33.3	−4.5	+13.6	n.a.	+1.4	−25.6
	July, 1949	+134.7	−3.7	n.a.		+15.0	+6.0
Rockford		$1,033	20,081	$14,840		$ 101	$ 124
Percentage Change from	June, 1950	−15.5	−3.8	+5.9	−10.0	−12.5	−11.5
	July, 1949	+359.1	+20.6	n.a.	+19.4	+21.8	+7.7
CENTRAL ILLINOIS							
Bloomington		$ 360	[illegible],425	$ 5,118		$ 42	$ 62
Percentage Change from	June, 1950	+125.0	+1.1	−2.1	n.a.	+1.5	−6.6
	July, 1949	+33.8	+12.1	n.a.		+8.1	+19.5
Champaign-Urbana		$1,000	6,475	$ 7,063		$ 43	$ 50
Percentage Change from	June, 1950	+180.9	−1.8	+2.5	n.a.	−4.2	−21.6
	July, 1949	+455.6	+10.4	n.a.		+13.1	+6.2
Danville		$ 310	6,385	$ 5,372		$ 38	$ 44
Percentage Change from	June, 1950	−6.7	−10.1	−1.0	+9.1	+7.3	−6.2
	July, 1949	+136.6	+1.1	n.a.	+23.7	+8.2	+28.5
Decatur		n.a.	14,222	$ 8,762		$ 69	$ 70
Percentage Change from	June, 1950		+1.5	+2.4	+11.9	−1.0	−10.1
	July, 1949		+6.9	n.a.	+37.3	−1.0	+4.9
Galesburg		$ 146	4,566	$ 3,945		n.a.	$ 27
Percentage Change from	June, 1950	−54.2	+3.0	+1.4	n.a.		−4.4
	July, 1949	−8.8	+5.6	n.a.			+17.5
Peoria		$ 713	41,623[c]	$16,294		$ 188	$ 161
Percentage Change from	June, 1950	−63.3	−2.0	+3.9	−0.2	+0.5	−3.5
	July, 1949	+120.1	+12.1	n.a.	+13.3	+17.1	+15.9
Quincy		$ 309	6,160	$ 4,773		$ 30	$ 54
Percentage Change from	June, 1950	−74.7	−1.0	+5.1	+7.0	−5.3	−21.6
	July, 1949	+247.2	+3.7	n.a.	+18.0	+9.1	−7.9
Springfield		$ 714	19,084[c]	$11,976		$ 77	$ 164
Percentage Change from	June, 1950	−48.4	−1.0	+1.6	+9.7	−6.3	−11.6
	July, 1949	+58.7	+3.6	n.a.	+48.3	+12.7	+9.6
SOUTHERN ILLINOIS							
East St. Louis		$1,062	9,477	$ 8,154		$ 115	$ 56
Percentage Change from	June, 1950	+215.1	−2.1	0.0	n.a.	+2.2	+37.4
	July, 1949	+848.2	+5.1	n.a.		+9.6	+32.1
Alton		$ 155	9,548	$ 4,376		$ 25	$ 22
Percentage Change from	June, 1950	−8.3	+0.7	+7.9	n.a.	−6.5	+1.6
	July, 1949	+1.3	+1.5	n.a.		+15.5	+4.8
Belleville		$ 220	4,371	$ 3,779		n.a.	$ 30
Percentage Change from	June, 1950	−36.8	+5.1	+2.0	n.a.		+7.4
	July, 1949	+249.2	+9.0	n.a.			+26.4

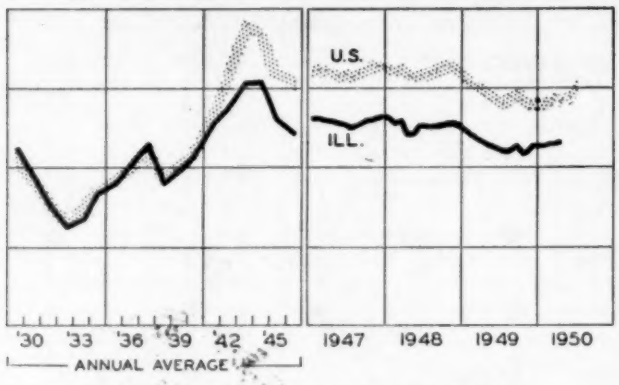
Sources: [1]U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2]Local power companies. [3]Illinois Department of Revenue. Data are for June, 1950, the most recent available. Comparisons relate to May, 1950. [4]Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. [5]Local post office reports.

[a] Total for cities listed.
[b] Moline only.
[c] Includes immediately surrounding territory.
n.a. Not available.

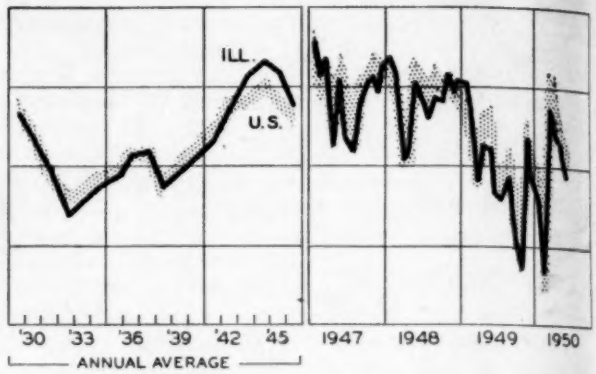
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

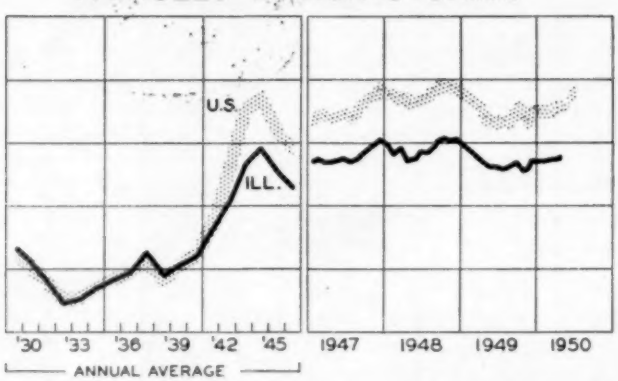
EMPLOYMENT–MANUFACTURING



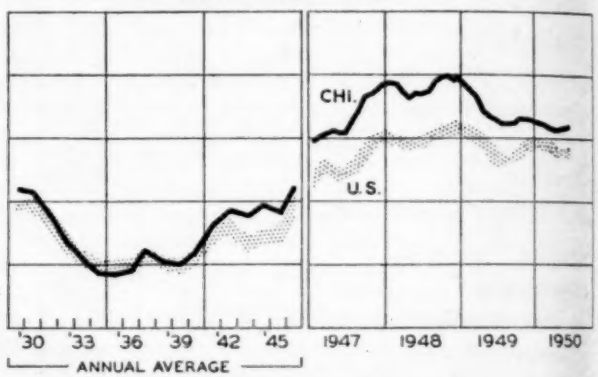
COAL PRODUCTION



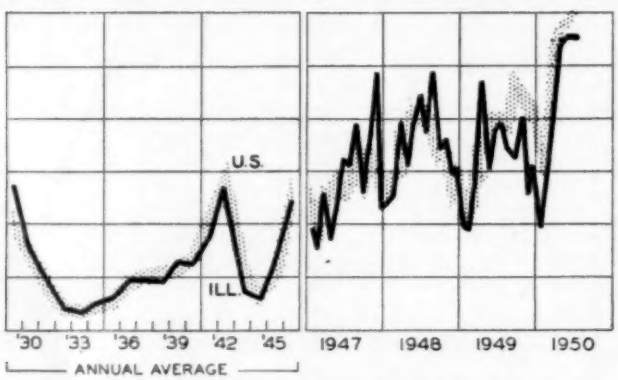
PAYROLLS–MANUFACTURING



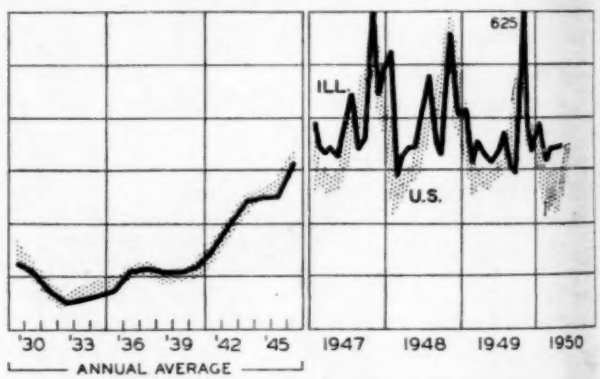
BUSINESS LOANS



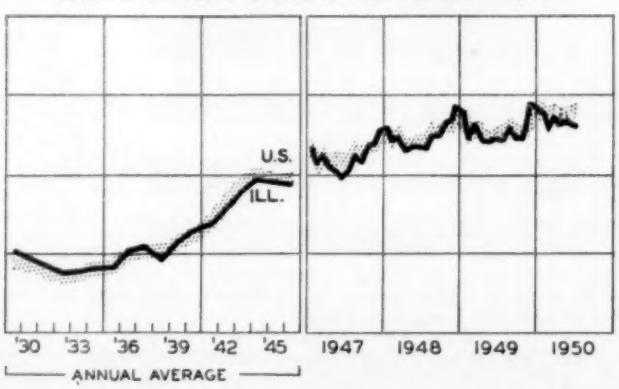
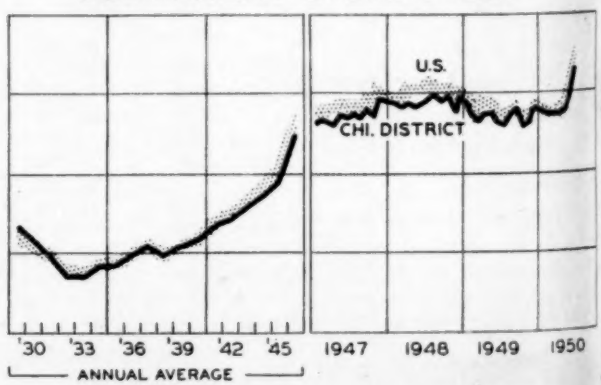
CONSTRUCTION CONTRACTS AWARDED



CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES